

# Quarterly Economic Review

*A Comparison of Selected National, Regional,  
and Local Economic Indicators*  
Loudoun County Department of Economic Development



Volume 2, Issue 4

Fourth Quarter 2004

## Spring Forward, Fall Forward

Much like the spring of 2004, employment growth in the U.S. appears to have rebounded. In October, total employment in the U.S. increased by 337,000 jobs, the second largest gain since the bursting of the technology bubble. That development is a source of optimism alongside a set of apparently contradictory economic indicators. For example, strengthening employment growth and steady declines in unemployment claims have coincided with increases in both the rate and average duration of unemployment. Retail sales, coming off a lackluster summer, have registered gains for two consecutive months, yet consumer confidence continues to slide. Further, growth in output has met or exceeded its long run average for a year and a half, but leading indicators have declined for four months suggesting that future output growth may falter. With such a mixed bag of indicators, determining the direction of future growth is difficult.

One possible source of information that could be used to gain insight about future employment growth may be the presidential cycle. Since World War II, the average U.S. annual employment growth rate during the first term of any administration has been 1.7 percent. The comparable average for second terms has been 2.4 percent. Therefore, if historic trends continue, it can be expected that employment growth may become more robust in the near future. That growth, if it does occur, may provide the missing ingredient in the current economic recovery in the U.S.

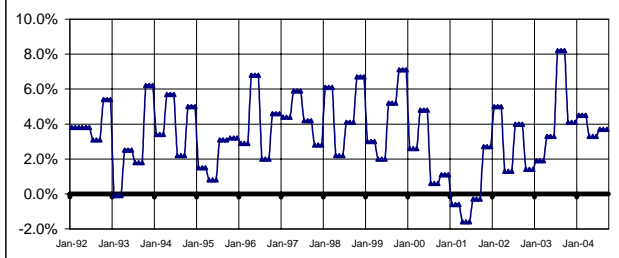
Regional economic indicators are far easier to read. The Washington Metro Area remains among the leaders in the health of its labor market. In the latest year, through September, 63,300 jobs were added in Washington, leading the nation's largest 100 metro areas. Unemployment in the region was fourth lowest in that group. A healthy employment market in the region has been fueled by significant increases in Federal spending. In the first three quarters of 2004, Federal spending in the U.S. was 18 percent higher than the average of the first three quarters of each of the years between 1990 and 2003, adjusted for inflation. Meanwhile, Washington's share of total Federal employment has increased from 12.0 percent in 1998 to nearly 13.0 percent in 2004. Simply put, the Washington Metro Area is enjoying a larger slice of a growing pie.

Loudoun has done its share in contributing to regional growth. Although Loudoun's employment comprises 9.2 percent of Northern Virginia's total, Loudoun contributed 19.7 percent of the region's employment growth in the latest year. Further, many of the jobs being created in Loudoun are high paying technology and professional services jobs sparking a return in wage growth. Between early 2001 and early 2003, Loudoun's average weekly wages trended downward, unsurprising given a national economic downturn and the high share of retail and service sector jobs needed to meet increasingly large populations. In the latest year, however, growth in Loudoun's average weekly wages has returned. In fact, among the nation's 100 fastest growing counties, Loudoun's wage growth ranked third, a finding that is even more extraordinary when coupled with the fact that Loudoun already had the highest wages among that group of counties. Continued growth in high wage sectors coupled with its location in one of the nation's healthiest metro areas provides Loudoun with ample opportunity to continue to be a national leader in economic growth.

## National Economic Indicators

### Gross Domestic Product

This variable measures the annualized percent change in Gross Domestic Product (GDP). GDP is the broadest measure of economic activity and reflects the growth rate of total economic output in the U.S., including goods and services. Source: BEA.

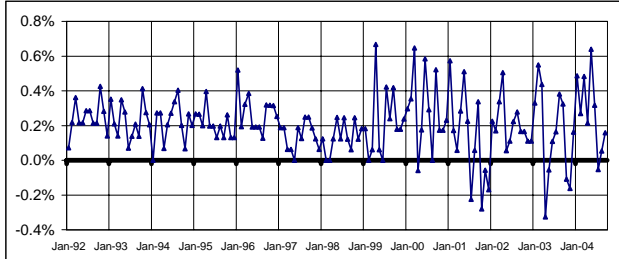


Recent Trend: **INCREASING**

U.S. GDP, led by consumption and investment, increased by 3.7% in the third quarter. Public sector growth was modest and net exports remained a drag on the economy. Consumption increased by 4.6%, its fastest rate in a year, led by durable goods. Growth in durable goods is encouraging because it suggests consumer demand for big ticket items may be increasing.

### Consumer Price Index

This variable measures the month over month percent change in the Consumer Price Index (CPI) for the U.S. The CPI measures the price level of a fixed market basket of goods and services and is the most widely cited inflation indicator. Source: BLS.

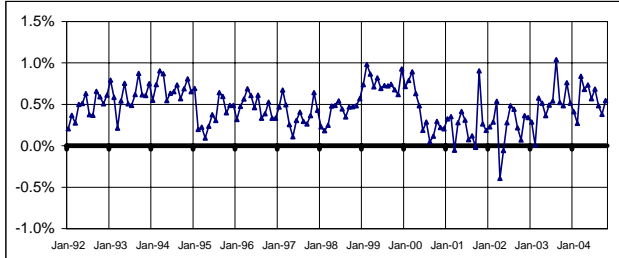


Recent Trend: **UNCLEAR**

Consumer prices increased by 0.2% in August and 0.1% in September. At the current pace, the 2004 inflation rate will be 3.5%, nearly doubling the 2003 rate of 1.9%. Recent inflation has been driven by energy costs, and to a lesser extent, medical, food, and housing costs. Current inflation rates, while not worrisome, will likely lead to higher interest rates.

### Retail Sales

This variable measures the six month moving average percent change in U.S. retail sales, a timely indicator of broad consumer spending patterns. Data are adjusted for seasonal, holiday, and trading day differences, but not for price changes. Source: Census Bureau.

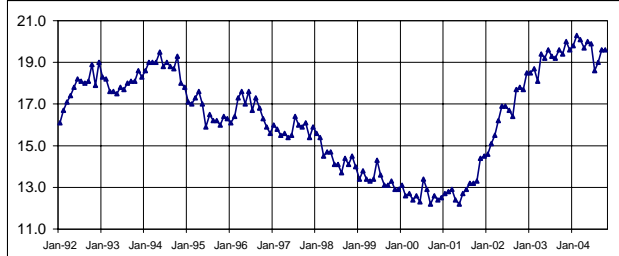


Recent Trend: **UNCLEAR**

Retail sales increased modestly in October after sharply rebounding by 1.7% in September. Increased spending on gas, clothes, and food offset declines in autos and building materials. Retail sales growth, monitored as a measure of the health of the current recovery, has been unimpressive in the last 6 months. Preliminary data suggests sales will increase in November.

### Unemployment Duration

This variable measures the average length of time, in weeks, that unemployed persons have sought work in the U.S. This variable is sometimes argued to be a better indicator of the labor market than the unemployment rate. Source: BLS.

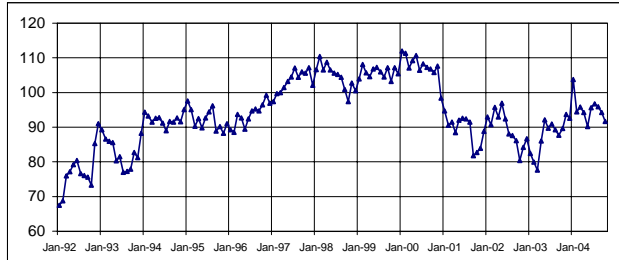


Recent Trend: **UNCLEAR**

After a recent decline, the U.S. average unemployment duration increased to 19.6 weeks in September and held steady in October. Although several other labor market indicators such as employment growth and unemployment claims improved in the latest quarter, an increase in this measure is concerning because it can lead to a weaker consumer outlook.

### Consumer Sentiment

This variable measures both consumers' appraisal of current economic conditions and their expectations. The index is helpful in predicting sudden shifts in consumer patterns. Consumption is 66% of the U.S. economy. Source: University of Michigan. (1985=100).

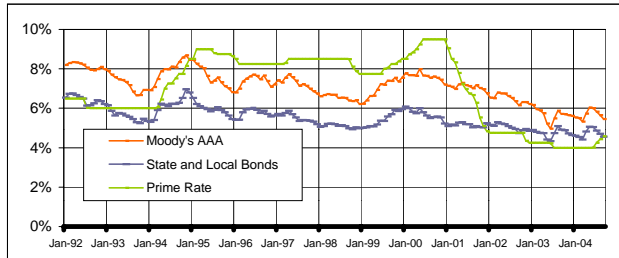


Recent Trend: **DECREASING**

Consumer sentiment deteriorated in October; has now declined for three consecutive months; and has trended downward for most of 2004 reaching its lowest level in a year. Consumers' worries included increased oil prices, continued conflict abroad, and persistent labor market stagnation. Those concerns have contributed to lackluster growth in retail sales over the last six months.

### Interest Rates

These variables measure rates of interest in money and capital markets. They are defined as follows: Moody's AAA - Private, all industries AAA Rating; State and Local Bonds - 20 bond index; Prime Rate - bank prime loan rate. Source: Federal Reserve.



Recent Trend: **UNCLEAR**

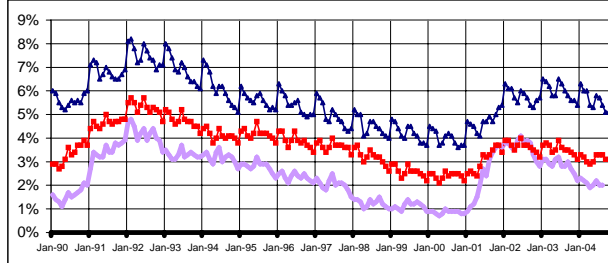
Bond rates have declined for four consecutive months through September, and are nearing one year lows. Prime rates are trending up in response to Federal Funds Rate increases and will likely continue to do so as the Federal Reserve attempts to curb inflationary pressure. Interest rates are still considered historically low and will likely fuel continued investment growth.

## Regional and Local Indicators

— Loudoun County — Washington PMSA — U.S.

### Unemployment Rate

This variable is defined as the number of unemployed divided by the labor force by place of residence. Data are not seasonally adjusted and are subject to criticism at local levels, particularly in rapidly growing localities. Source: BLS Employment Report.

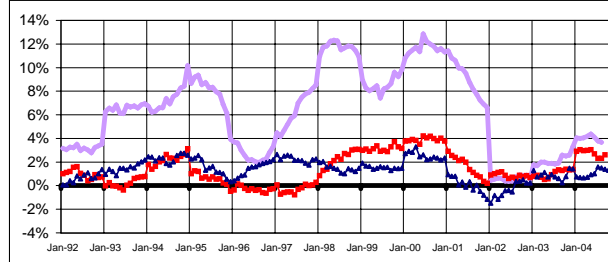


Recent Trend: **DECREASING**

Loudoun's labor market continued to tighten in the latest quarter as unemployment reached 2.0% in August. That rate was lower than all but eight other Virginia localities. Similarly, the regional unemployment rate of 3.1% was fourth lowest among the nation's 100 largest metro areas. Regional and local labor markets continue to outperform the comparable national figure.

### Civilian Employment

This variable measures the annual percent change in non-farm payroll employment on a place of residence basis. This indicator is considered the most timely and broad monthly indicator of economic activity. Source: BLS Employment Report.

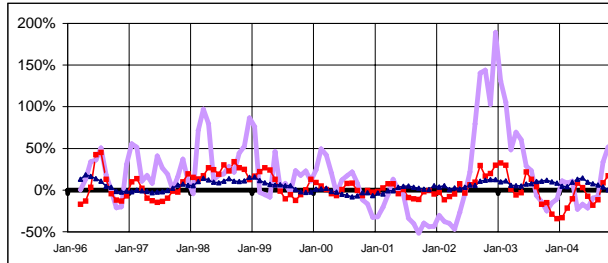


Recent Trend: **INCREASING**

Civilian employment growth in Loudoun slowed slightly in the latest quarter but is still expanding at more than twice the national average. Employment growth rates in August in Loudoun and the region were 3.7% and 2.3% respectively, as compared to the national rate of 1.3%. Loudoun's employment growth was led by high wage professional & technical service jobs.

### Residential Bldg. Permits

This variable measures the year over year percent change in the three month moving average of residential building permits. These data can be volatile at the county level. Source: Census Bureau and Loudoun County Department of Economic Development.

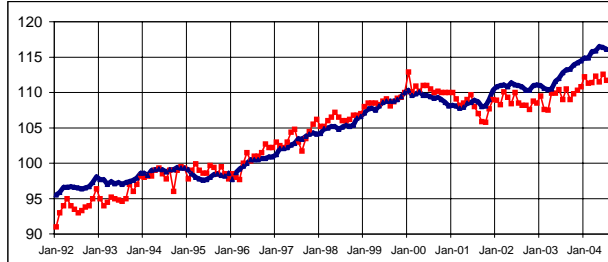


Recent Trend: **INCREASING**

Loudoun issued 1,983 building permits in the third quarter of 2004, the second largest volume of building permits issued in one quarter. Despite that recent surge, Loudoun will likely relinquish its regional lead in building permits to its much larger neighbor Fairfax County in 2004. At the current pace, Loudoun will issue 6,237 building permits in 2004.

### Leading Indicators

Although these indices differ in composition, both forecast economic performance in the short term (about 6 to 12 months). The Conference Board produces the U.S. Leading Indicator and GMU's Center for Regional Analysis produces the Washington Leading Index.

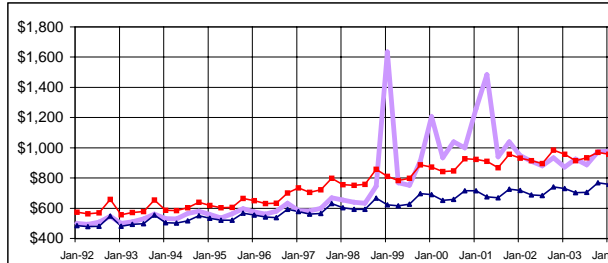


Recent Trend: **DECREASING**

The U.S. leading indicators have now declined for four consecutive months. Multiple month declines such as that are infrequent in non-recessionary years and have only occurred two other times in the last decade. After significant increases in the Washington leading indicator, that index may be stagnating also. That indicator has decreased in three of the last six months.

### Average Weekly Wages

This variable measures the average weekly wages in all industries for all employees covered by unemployment insurance. These data are not adjusted for inflation. Peaks are likely associated with bonuses. Source: Virginia Employment Commission and BLS.

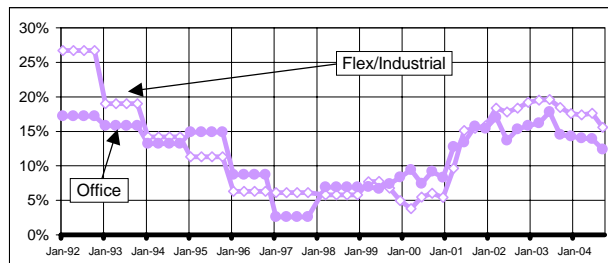


Recent Trend: **INCREASING**

Loudoun's average weekly wages per worker have increased on a year over year basis for four consecutive quarters, reversing a year long slide. Increasing wages suggest that the quality of employment growth in Loudoun is improving. Regional and local weekly wages, which were \$979 and \$956 respectively, remained well above the comparable U.S. average of \$758.

### Loudoun's Vacancy Rates

These variables measure the share of office and industrial space that is vacant in Loudoun County, excluding sublet space. It is a good indicator as to the health of the non-residential real estate market. Comparable figures are not available. Source: Costar.



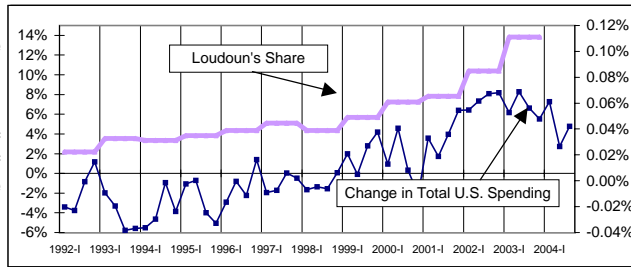
Recent Trend: **DECREASING**

Loudoun's office vacancy rates have declined for five consecutive quarters reaching 12.4% in the third quarter of 2004. Vacancy rates for industrial and flex space have also trended downward and have declined for four of the last five months. In the last year, 300,000 square feet of office space and 700,000 square feet of flex/industrial space was absorbed.

## Government Finance

### Federal Spending

These variables measure the percent change in total U.S. federal consumption and investment spending (left axis) and Loudoun County's share of that spending as a percent of the nation (right axis). Data are adjusted for seasonality and inflation. Source: BEA and Census Bureau.

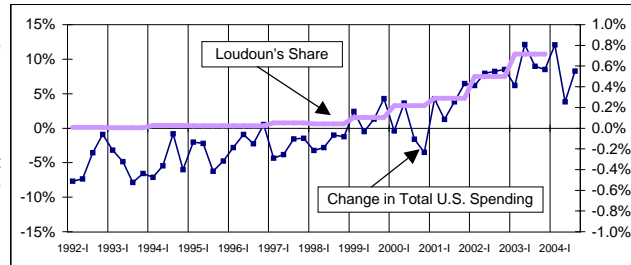


Recent Trend: **INCREASING**

Total federal spending increased in 2004, however at a slightly slower rate than in recent years. Loudoun's share of those expenditures has continued to increase due to a relatively large defense contractor and business services presence. Federal spending in Loudoun in 2003 was nearly \$2.3 billion and has increased from 0.03% of the U.S. total in 1993 to 0.11% in 2003.

### Federal Defense Spending

These variables measure the percent change in total U.S. federal consumption and investment spending on National Defense (left axis) and Loudoun County's share of that spending (right axis). Data are adjusted for seasonality and inflation. Source: BEA and Census Bureau.

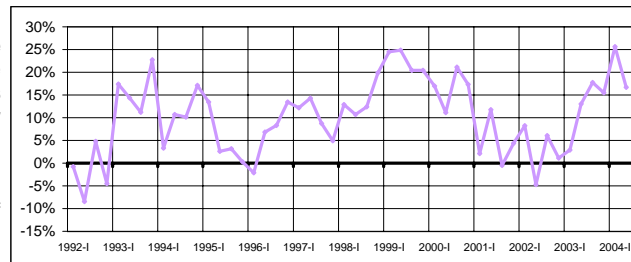


Recent Trend: **INCREASING**

Federal defense spending continued to increase in 2004 and Loudoun is an increasingly large recipient of those funds. In 2003, Loudoun garnered \$1.4 billion in total defense procurement contracts, or 0.7% of the U.S. total. That compares to less than \$6 million in 1993. Homeland Security spending contributed another \$23 million to the Loudoun economy in 2003.

### Taxable Retail Sales

This variable measures the year over year percent change in total taxable retail sales collected in Loudoun County and allows insight into trends in local option sales tax revenue. Data are adjusted for inflation. Source: Virginia Department of Taxation.

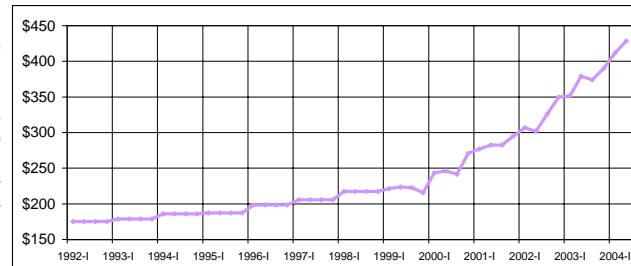


Recent Trend: **INCREASING**

Taxable retail sales in Loudoun increased by 16.7% in the second quarter, following 25.7% in the first quarter, its fastest pace in a decade. Recent growth in Loudoun's retail sales have been driven by increased food sales, building materials, machinery, and furniture. Taxable retail sales for hotels were the only category to decline in the latest year.

### Average Housing Sales Price

This variable measures the average sales price for all housing units sold in Loudoun County in thousands of dollars and may offer insight into trends in property tax revenue. Data are not adjusted for inflation or product mix, age, or size. Source: Loudoun County Dept. of Financial Svcs.



Recent Trend: **INCREASING**

Housing prices in Loudoun increased by 17.6% between the first and second quarter of 2004. During that period, housing prices increased by 15.4% in the region and by 9.4% in the U.S. Townhouses registered the largest gain in the period, increasing by 25.1%. Single family detached homes increased by 20.2% while condos increased by 17.1% in the period.

## Summary

	Trend		Number of Indicators
Gross Domestic Product	INCREASING		
Consumer Price Index	UNCLEAR		
Retail Sales	UNCLEAR		
Unemployment Duration	UNCLEAR		
Consumer Sentiment	DECREASING		
Interest Rates	UNCLEAR		
Unemployment Rate	DECREASING	Favorable	10
Civilian Employment	INCREASING	Unclear	4
Residential Bldg. Permits	INCREASING	Unfavorable	2
Leading Indicators	DECREASING		
Average Weekly Wages	INCREASING		
Loudoun's Vacancy Rates	DECREASING		
Federal Spending	INCREASING		
Federal Defense Spending	INCREASING		
Taxable Retail Sales	INCREASING		
Average Housing Sales Price	INCREASING		

Current Distribution of Indicators

